

Service Date: August 12, 1996

DEPARTMENT OF PUBLIC SERVICE REGULATION
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MONTANA

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IN THE MATTER of the Application)	UTILITY DIVISION
of the Mountain Water Company for)	
Authority to Increases Rates and Charges)	DOCKET NO. D96.4.61
for Water Service to its Missoula Division)	ORDER NO. 5910c

INTERIM RATE ORDER

FINDINGS OF FACT

1. On April 12, 1996 the Montana Public Service Commission (Commission) received an application from Mountain Water Company (Mountain Water) for authority to increase rates and charges for water service in its Missoula Division serving Missoula, Montana. Mountain Water computes its revenue requirements for test year 1995 to be \$8,945,138, compared with revenues at present rates of \$7,770,514. The total requested increase is for \$1,174,624 in annual revenues, or a 15.12 percent increase.

2. Concurrent with this filing for a permanent increase in rates, Mountain Water filed an application for interim rate relief. Mountain Water requested an interim increase in rates of 8.34 percent, equaling a revenue increase of \$648,317.

3. The interim rate request includes a significant increase in booked expenses of the utility and additional adjustments not accepted in previous Commission orders. Among these adjustments are projected insurance cost increases, increased main office expenses, power cost increases attributed to Montana Power rate increase, and water sampling costs. These adjustments are not allowed as part of the interim granted in this order.

4. The Commission in considering a request for an interim rate increase is guided by generally established principles of utility rate regulation. Pursuant to ARM 38.5.506, the Commission normalizes and annualizes test year booked financial information. The Commission then makes adjustments determined in the last general rate order of the utility, using the

methodology and rate of return on equity from that order, applied to the test year amounts. The Commission, in its discretion, may waive these rules (ARM 38.5.508).

5. Mountain Water amended its interim rate increase request as a result of a Commission and Montana Consumer Counsel Staff audit of the books and records of Mountain Water and the parent company, Park Water. Mountain Water now proposes an interim increase in rates of 7.34 percent, equaling a revenue increase of \$575,413. This is \$72,904 less than the original interim rate increase request. More than half of the requested interim is for a telemetry system to respond to changing customer demand and monitor equipment operation 24 hours a day.

6. For interim purposes the Applicant requests that the Commission authorize an overall rate of return of 10.407 percent. This rate of return recognizes Mountain Water's most recent cost of debt capital of 9.07 percent and a cost of equity of 11.5 percent.

7. Mountain Water Company's operations for the test period produced an overall rate of return of 8.095 percent, in applying the interim rate relief criteria of ARM 38.5.506 to the amended request. This compares with the overall rate of return allowed for interim purposes of 10.407, as demonstrated in the following schedule:

SCHEDULE

	<u>At Present Rates</u>	<u>At Proposed Rates</u>
Revenues	\$7,838,965	\$8,414,378
Dollar Increase		575,413
Percentage Increase		7.34%
O&M Expense	4,735,062	4,736,688
Depreciation & Amort.	693,156	693,156
Taxes Other Than Income	638,113	639,610
Income Taxes	539,425	759,499
Total Deductions	6,605,756	6,828,953
Operating Income	<u>\$1,233,209</u>	<u>\$1,585,425</u>
Rate Base	<u>\$15,234,219</u>	<u>\$15,234,219</u>
Return on Rate Base	8.095%	10.407%

8. The Commission finds that the difference between what Mountain Water earns and what it is entitled to earn constitutes an income deficiency. Deferring rate relief pending a final order may adversely affect the utility's financial condition. Further, under current ratemaking standards, the utility may be entitled to rate relief at the time a final order is issued in this proceeding. During 1995 Mountain Water invested approximately \$2.8 million in gross capital improvements. The Commission finds that Mountain Water is entitled to interim rate relief of \$575,413 on an annual basis.

9. The Applicant has requested that any interim relief granted by the Commission be generated by increasing the rate using a uniform percentage increase for all services, other than public and private fire protection customers, which will not receive an increase. This increase will be 7.6569 percent to all flat rate and metered customers present rates. The Commission finds that this request is reasonable.

CONCLUSIONS OF LAW

1. The Mountain Water Company is a public utility furnishing water service to customers in the Missoula, Montana area. As such, it is subject to the supervision, regulation and control of this Commission pursuant to Title 69, Chapter 3, Montana Code Annotated (MCA).

2. Section 69-3-304, MCA, provides in part, "The Commission may in its discretion, temporarily approve increases pending a hearing or final decision."

3. The Commission concludes that the grant of an interim rate increase as set forth is just, reasonable and within the discretion granted by § 69-3-304, MCA.

ORDER

NOW THEREFORE, IT IS ORDERED THAT:

1. Mountain Water Company is hereby granted authority to implement on an interim basis increased rates for its Missoula, Montana customers, designed to generate additional annual revenues in the amount of \$575,413.

2. Mountain Water Company shall file revised tariff schedules spreading the increased revenues as a uniform percentage increase to all services, except public and private fire protection customers.

3. The increase granted herein is subject to rebate should the final order in this Docket determine that a lesser increase is warranted. Such rebate would include interest at 12.0 percent per annum.

4. The interim relief granted in this Order is to be effective for services rendered on and after August 8, 1996.

DONE IN OPEN SESSION at Helena, Montana, this 7th day of August, 1996, by a 4-1 vote.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION

NANCY McCAFFREE, Chair
(VOTING TO DISSENT-NO WRITTEN DISSENT)

DAVE FISHER, Vice Chair

BOB ANDERSON, Commissioner

DANNY OBERG, Commissioner

BOB ROWE, Commissioner

ATTEST:

Kathlene M. Anderson
Commission Secretary

(SEAL)

NOTE: Any interested party may request that the Commission reconsider this decision. A motion to reconsider must be filed within ten (10) days. See 38.2.4806, ARM.